

2017 COMMONWEALTH VALUATION STUDY

By James Lamenzo
Actuary

The Commonwealth Actuarial Valuation Report presents the results of the actuarial valuation of the pension benefits that are the obligation of the Commonwealth of Massachusetts. The 2017 report was released by PERAC on September 20, 2017. The four components of the report are the State Employees' Retirement System, the Massachusetts Teachers' Retirement System, Boston Teachers, and the Cost of Living Allowance reim-

bursements to local systems. Two charts from the January 1, 2017 Commonwealth Actuarial Valuation Report are presented.

The bar chart (pictured on page three) shows the unfunded actuarial liability (UAL) since 1990. The UAL represents the actuarial accrued liability less the value of plan assets. As of January 1, 2017, the actuarial liability was \$91.6 billion and the actuarial value of plan assets was \$52.0 billion. The difference of \$39.6 billion is the UAL.

It is important to note that plan assets have grown faster than plan liabilities since 1990. As of January 1, 1990, the actuarial accrued liability was approximately \$20.0 billion and assets of \$7.8 billion resulted in a \$12.2 billion UAL. Since 1990, the actuarial liability has grown by about 4.6 times while assets have grown by about 6.7 times.

For this reason, we believe the funded ratio (assets divided by actuarial liability) represents a better measure of the Commonwealth's progress. If you draw a straight line from the 1990 funded ratio of (Continued on page two)

2017 EMERGING ISSUES FORUM

By Natacha Dunker
Communications Director

PERAC hosted our 13th Emerging Issues Forum on September 14, 2017 at the College of the Holy Cross in Worcester, Massachusetts. Over 260 individuals attended the event and retirement board members who attended earned three educational credits. PERAC Executive Director Joseph Connarton opened the forum. His remarks addressed the importance of the PERAC audit and how the full cooperation of the boards is vital to a successful audit completion.

Lt. Governor Karyn Polito welcomed attendees to the Forum. Her remarks highlighted the administration's commitment to the Commonwealth's defined benefit system as well as providing assurances of continuing stewardship of the benefits of our public employees in a prudent and responsible manner.

State Auditor Suzanne Bump, our Commission Vice Chair, provided the keynote. She gave an overview of the recent technology upgrades at the Office of the State Auditor. Her remarks (Continued on page four)



State Auditor Suzanne Bump,
PERAC Vice Chair

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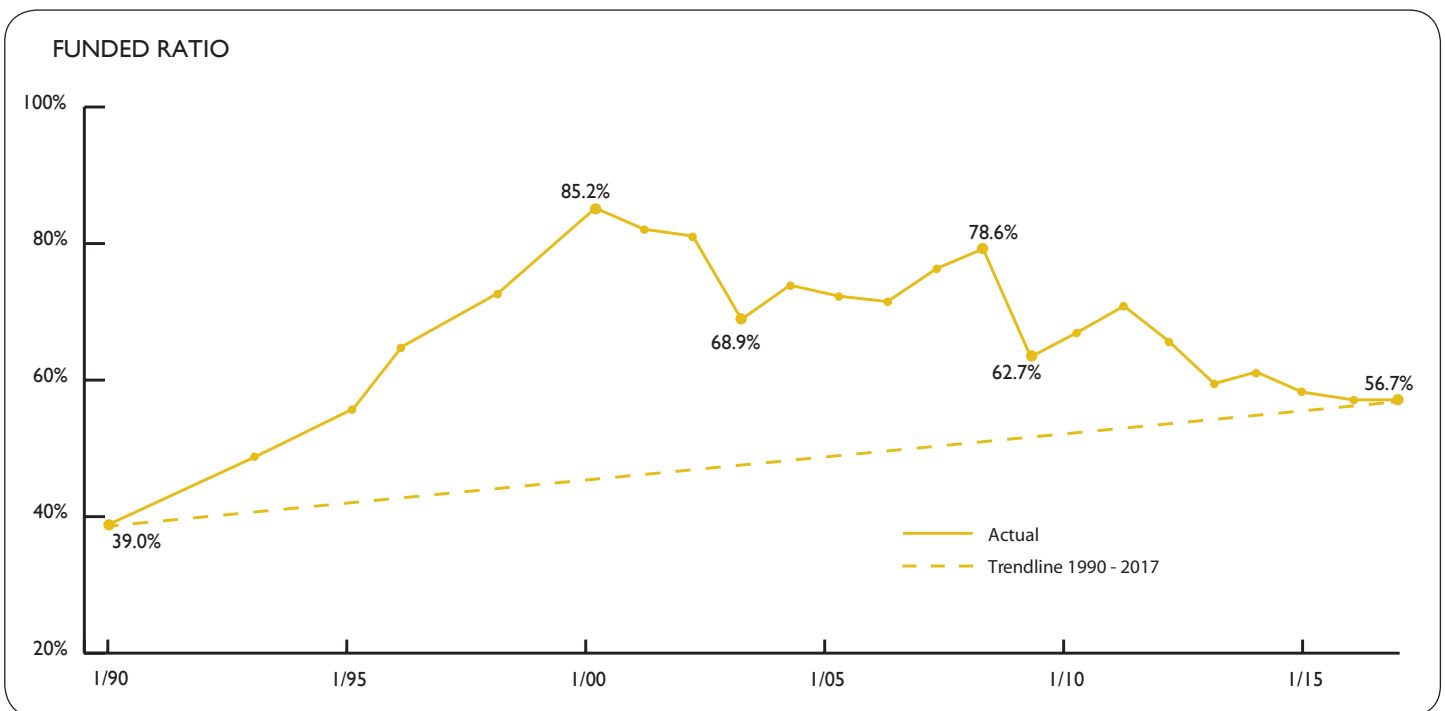
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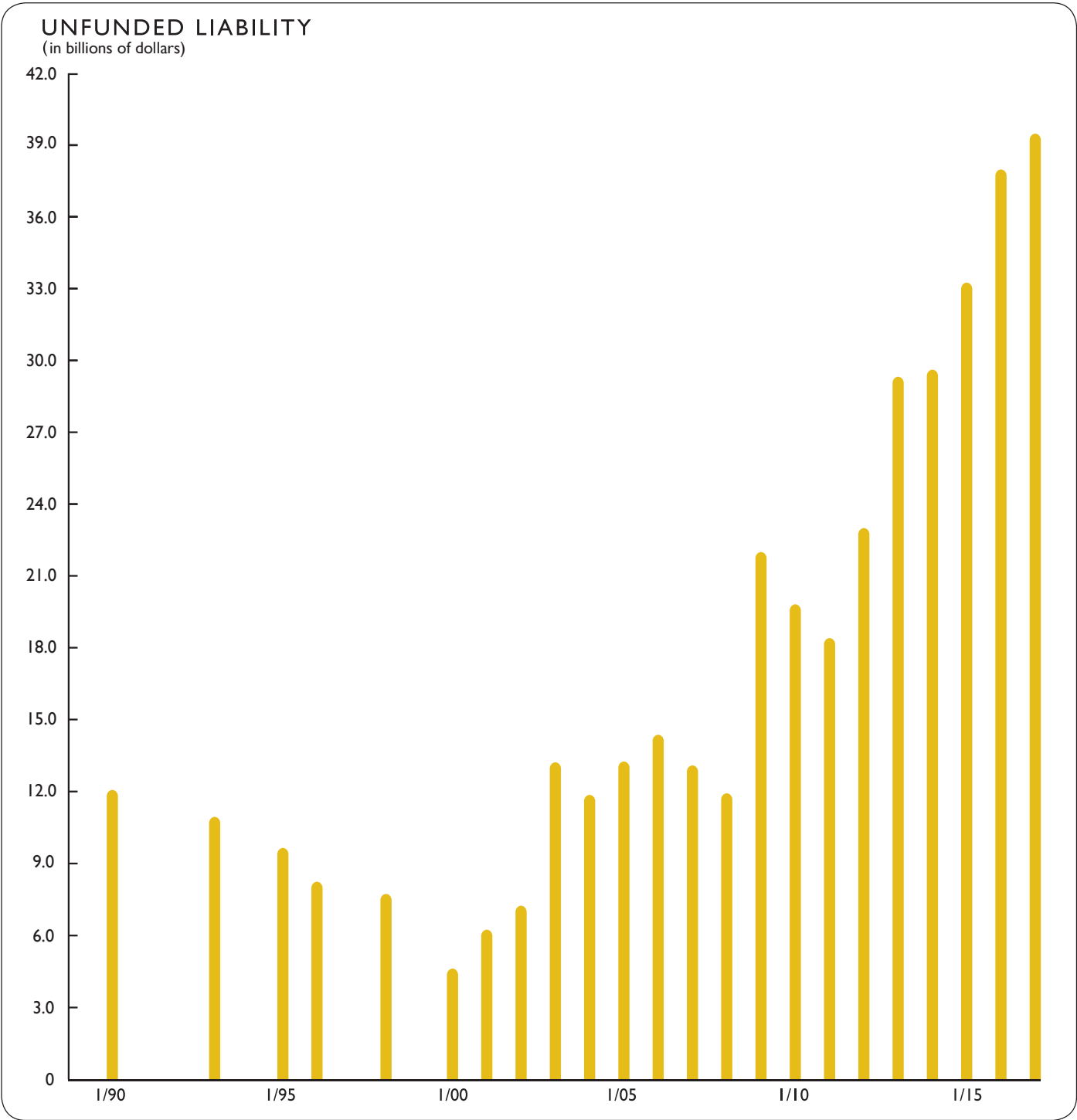
39.0% to the January 1, 2017 amount of 56.7%, the line is moving upward to the right. This demonstrates the funding progress to date. Although the funded ratio reached 85.2% on January 1, 2000, this was the result of average annual returns from 1985-1999 that exceeded 12.5% and attaining such a high level of funding so quickly was not expected. If there had been no gain or loss on assets from 1985-1999, the funded ratio would have been about 45%. Over the past 17 years (2000-2016), the average annual return on assets on a market value basis is approximately 5.9%. Over a 10-year and 5-year period, the returns have been 5.0% and 9.2% respectively.

The 32 year return (since inception) is 9.4%.

The actuarial liability (and therefore the UAL) as of January 1, 2017 increased \$1.6 billion to reflect an update to the mortality assumption. There have been a number of other plan and assumption changes in the past 8 years that have increased the Commonwealth actuarial liability. These changes include three reductions in the investment return assumption (from 8.25% to 8.0% as of January 1, 2013, from 8.0% to 7.75% as of January 1, 2015, and from 7.75% to 7.50% as of January 1, 2016). There have also been frequent adjustments to the mortality assumption including

the adoption of a fully generational mortality assumption as of January 1, 2015, the adoption of a \$13,000 COLA base, the transfer of active members of sheriff departments in six counties to the State, and the transfer of former members of the Massachusetts Turnpike Authority Retirement System to the State. Including the changes as of January 1, 2017, the actuarial liability is approximately \$11.3 billion greater than it would have been using the 2009 basis. Therefore, on a comparable basis with the 2009 plan provisions and assumptions, the UAL on January 1, 2017 would be \$28.4 billion and the funded ratio would be 64.7%. ■





The 2017 Commonwealth Actuarial Valuation Report can be accessed on PERAC’s website, mass.gov/perac.

were timely, given PERAC's own recent upgrades to our business systems with PROSPER. It was reassuring to learn the positive results her office has achieved.

Jim Lamenzo, PERAC's Actuary, and Michael Trotsky, Executive Director of the Pension Reserves Investment Management Board headed the first session of the day, Actuarial and Investment Perspectives. The session provided key insights from PRIM on their fiscal condition as well as information on asset allocation changes and market assumptions while Jim focused on the investment return assumption, revisiting a 2010 presentation, along with a study of current assumptions and discussing the recommended assumption range for systems going forward.

Based on feedback received, the highlight of the day was a format that we debuted at this year's Forum with the Retirement System Best Practices panel. Our feedback forms have often requested that boards hear directly from their peers so they could learn from each other, so

this year we decided to do just that. The Panel featured four executive directors representing the various board sizes and types.

Susana Baltazar of the Springfield Retirement System discussed her board's recent venture into digital board materials and how they have integrated PROSPER into their business practices. Lauren Durham, of the Hull Retirement System, gave an overview of the challenges faced by smaller boards, particularly with recruiting and retaining board members. Lisa Maloney, of the Middlesex County Retirement System, discussed change management and her experience coming into an established larger system. Irene Moran, of the MassPort Retirement System, gave an overview of the Comprehensive Annual Financial Report and its benefits. She brought along fantastic examples of past MassPort CAFRS.

The final session of the day, Pension Forfeiture: A Case for Change, discussed the outcome and recommendations from the Pension Forfeiture

Commission. The panel consisted of several Commission members and its legal counsel, PERAC Executive Director, Joe Connarton, Norfolk County District Attorney, Mike Morrissey, Massachusetts Deputy Treasurer and State Retirement Board Executive Director, Nick Favorito, and PERAC Associate General Counsel, Patrick Charles. The presenters laid out the case for updating the existing law to increase equity and presented the issue from varying points of view. Attendees appreciated the depth and thoughtfulness of the presentations.

All of the slideshows are available on our website if you would like to review them. As always, we appreciate all of the feedback we receive at the Forum so that we can work on making each year better than the last. We at PERAC want to thank everyone who helped make the event a success! ■

2017 EMERGING ISSUES FORUM (Continued)



Lt. Governor Karyn Polito
providing opening remarks



IMAGES FROM EMERGING ISSUES FORUM

Thank you all for
attending!



BOARD ADMINISTRATOR TRAININGS - ROUND ONE

*By Judith A. Corrigan
Deputy General Counsel
& Managing Attorney*

PERAC launched a new program of one day Board Administrator Trainings this year. The first one was held in Northampton on August 10, 2017, the second in Hyannis on October 17, 2017, and the third in Danvers on November 14, 2017, the latter training being moved from Danvers Town Hall to the Doubletree Hotel in Danvers due to the number of people who signed up for the program. All told, over 125 board administrators and board members attended one of the three sessions. (Although geared toward the specific needs of board administrators, board members were welcome to attend and earned three credits for their attendance at this day-long seminar.)

Members of the Actuarial Unit, the Compliance Unit, and the Legal Unit

at PERAC served as presenters. Many topics were covered in the course of each session. Attendees learned about “Calculations,” “Anti-Spiking,” “Running a Board Meeting,” “Regular (and Irregular) Compensation,” “Dual Members,” “Buybacks,” and “Interest.” (The “Buyback” presentation also covered the different ways in which a member may be credited with previous, non-membership time.) Each day of training concluded with the award of certificates to all attendees.

These trainings represent a new approach in fulfilling PERAC’s responsibility to provide “training and legal and technical assistance to retirement boards.” G.L. c. 7, § 50(f). After the passage of Chapter 176 of the Acts of 2011, which mandated continuing education for board members, PERAC began to gear much of its formal training sessions to board members. However, PERAC is committed to continuing

both tracks of trainings.

The response to these trainings has been so overwhelmingly positive that PERAC will offer three more day-long training sessions in the Spring of 2018. Once again, these presentations will be specifically tailored toward board administrators, but board members are welcome to attend and will earn credits for attending.

The dates, topics and locations for these Spring presentations will likely be announced in February of 2018. Just as with the recently concluded presentations, registration will be done via PROSPER. ■



SEC ISSUES ORDER AGAINST CT BASED INVESTMENT ADVISER AND HIS ATTORNEY

*From Securities and Exchange
Commission Press Release 2017-3*

The Securities and Exchange Commission announced earlier this year that a Connecticut-based investment adviser agreed to admit wrongdoing and pay more than \$575,000 to settle charges that he defrauded a client and then compounded his scheme by attempting to mislead SEC investigators while lying to other clients about the status of the SEC's investigation.

According to the SEC's order, the adviser, John W. Rafal secretly paid a lawyer for referring a legal client's large account to Essex Financial Services, an investment advisory firm Rafal founded. The order further finds that Rafal attempted to mislead clients by stating that he had been exonerated.

Rafal attempted to obstruct the proceedings and throw investigators off his track on several occasions. "Rafal misled one client by hiding referral fees, misled other clients by falsely stating the SEC's investigation was over, and then attempted to mislead those investigating him. He will now be paying the price for his deceit," said Stephanie Avakian, Acting Director of the SEC's Enforcement Division. "We will not tolerate attempts to mislead and we will continue to refer possible obstruction cases to the SEC's Office of Inspector General."

The lawyer involved in the payment scheme, Peter D. Hershman, agreed to pay more than \$90,000 to settle SEC charges against him for aiding and abetting Rafal's securities law viola-

tions. Rafal and Hershman both agreed to be barred from the securities industry and from serving as an officer or director of a publicly-traded company, and they agreed to be permanently suspended from appearing and practicing before the SEC as attorneys.

Rafal is no longer affiliated with Essex Financial Services, which agreed to pay more than \$180,000 in disgorgement and interest to settle charges related to Rafal's misconduct. Hershman and Essex neither admitted nor denied the findings against them in the SEC's orders.

The U.S. Securities and Exchange Commission's mission includes protecting investors and to promoting a market environment worthy of the public's trust. ■

MORE INFORMATION ON THE ORDERS RELATED TO THIS CASE:

SEC Official Press Release:

<https://www.sec.gov/news/pressrelease/2017-3.html>

SEC Order – Rafal:

<https://www.sec.gov/litigation/admin/2017/34-79755.pdf>

SEC Order – Hershman:

<https://www.sec.gov/litigation/admin/2017/34-79756.pdf>

SEC Order – Essex Financial Services:

<https://www.sec.gov/litigation/admin/2017/34-79757.pdf>

For information on filing a complaint:

<https://www.sec.gov/complaint/select.shtml>

CHANGES TO PERAC WEBSITE

*By Natacha Dunker
Communications Director*

Some of you may have noticed changes to some pages on the PERAC website. The mass.gov website recently underwent a major redesign and realignment of their navigation. Because the PERAC website is part of the larger mass.gov website, our pages will be changing as well. The first pages to transition to the new format were the Recent Updates, Upcoming Meetings, Job Opportunities, and RFP Notice pages, as those are the most frequently updated pages.

The next major area to get updated will be the Retirement Information sections, where all board profile pages are listed. If you visit that section now, you will see that most board reports have already been transitioned. We are currently working on the board profile pages and should roll those out within the next month.

The new site offers many benefits, including improved readability and search functionality. The goal is to have all information easily findable through the search bar, rather than having to find your way to the information through navigation.

Additionally, the navigation we have all grown accustomed to will be unavailable once the site is fully transitioned, as the plan is for the Massachusetts website to have one universal navigation. We are working hard to make this change as smooth as possible, but welcome any and all feedback on how we can better serve you.

More information is available on our website. ■

*Please send all website comments to
nadunker@per.state.ma.us.*

HAS YOUR BOARD PARTICIPATED IN OUR COMPENSATION SURVEY?

A Survey Link was sent to each board chair to complete.
This link is unique and cannot be shared.

If your board would like to designate the director or someone else on staff to complete the survey, please send your request to our communications department and a new link will be sent. Your colleagues are counting on you for much needed data on board operations.

We will release the results of the survey next year.



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